

Message Text

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AMEMBASSY PRAGUE
AMEMBASSY SOFIA
AMEMBASSY WARSAW
AMCONSUL MUNICH
USMISSION GENEVA
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C O N F I D E N T I A L SECTION 1 OF 2 BUCHAREST 1483

E.O. 11652: GDS
TAGS: EALR, ECON, ELAB, PINT, RO
SUBJ: ANNOUNCEMENT OF NEW ECONOMIC POLICY FOR
ENTERPRISE MANAGEMENT
REF: (A) BUCHAREST 0001, (B) 77 BUCHAREST 6157 (NOTAL)

1. SUMMARY. IN SPEECH TO GENERAL ASSEMBLY OF WORKERS
AT BUCHAREST "HEAVY MACHINERY ENTERPRISE," GOR PRESIDENT
NICOLAE CEAUSESCU ANNOUNCED NEW ECONOMIC POLICY AIMED
AT INCREASING EFFICIENCY IN ENTERPRISE MANAGEMENT. MAIN
THRUST OF POLICY IS TO ENHANCE ROLE OF ECONOMIC/FINANCIAL
MECHANISM IN ECONOMIC LIFE TO CORRESPOND TO "NEW REALI-
TIES" IN ROMANIA. AS STATED, POLICY WOULD ACHIEVE
ENTERPRISE SELF-MANAGEMENT AND SELF-FINANCING AND
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THEREBY PROVIDE INCENTIVES FOR WORKERS TO ELIMINATE
GLARING ECONOMIC INEFFICIENCIES. ALTHOUGH IT CLEAR
THAT FUTURE ECONOMIC GROWTH PREDICATED ON INCREASED
ECONOMIC EFFICIENCY, IT DIFFICULT TO IMAGINE THAT SOME
OF MORE RADICAL CONCEPTS, SUCH AS SELF-FINANCING, WILL
BE IMPLEMENTED, AT LEAST IN NEAR TERM. MODALITIES FOR
IMPLEMENTATION OF POLICY ARE BEING FORMULATED UNDER

STATE AND PARTY GUIDANCE, AND IMPLEMENTATION WILL REPORTEDLY BEGIN WITH LIMITED INTRODUCTION IN A FEW PILOT ENTERPRISES. IN GENERAL, IMPLEMENTATION OF ANNOUNCED POLICY LIKELY TO BE TEMPERED BY HIGHER PRIORITY POLICIES SUCH AS DESIRE FOR CENTRALIZED PARTY CONTROL AND MULTILATERAL DEVELOPMENT. CLEARLY, NUMEROUS MINISTERIAL CHANGES, ANNOUNCED MARCH 8, ARE DESIGNED, INTER ALIA, TO EXPEDITE FORMULATION AND IMPLEMENTATION OF CEAUSESCU'S NEW ECONOMIC POLICY. END SUMMARY.

2. PRESIDENT CEAUSESCU ANNOUNCED NEW DIRECTION IN ECONOMIC POLICY DURING SPEECH MADE TO GENERAL ASSEMBLY OF WORKERS AT BUCHAREST "HEAVY MACHINERY ENTERPRISE" ON FEB. 16. TEXT OF SPEECH AVAILABLE IN SCINTEIA OF FEB. 14. CONSPICUOUS AIM OF GENERAL ASSEMBLY WAS TO REVIEW 1977 ENTERPRISE PLAN RESULTS AND DISCUSS MEANS OF ACHIEVEMENT FOR 1978 PLAN AND CURRENT FIVE-YEAR PLAN. CEAUSESCU, HOWEVER, USED OCCASION AS FORUM TO ANNOUNCE NEW ECONOMIC POLICY AIMED AT ACHIEVING INCREASED EFFICIENCY IN INDUSTRIAL PRODUCTION. AFTER STATING THERE "NO LONGER EXISTS CORRESPONDENCE BETWEEN MANAGEMENT SYSTEM AND ECONOMIC/ FINANCIAL MECHANISM," CEAUSESCU SAID FOLLOWING CHANGES WOULD BE INSTITUTED TO RESTRUCTURE MECHANISM:

A. COLLECTIVE MANAGEMENT - WORKER PARTICIPATION IN MANAGEMENT OF ENTERPRISE WILL INCREASE THROUGH SUCH ORGANS AS WORKING PEOPLE'S COUNCILS TO LEAD TO SELF-CONFIDENTIAL

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MANAGEMENT OF ENTERPRISES.

B. SALARIES - AS PARTICIPANTS IN MANAGEMENT PROCESS, WORKERS WILL HAVE LARGE PART OF SALARY BASED ON DIRECT RESULTS OF ENTERPRISE; ALSO, WORKERS WILL RECEIVE PAY ON BASIS OF NET RATHER THAN GROSS PRODUCTION. (FYI: ON FEB. 3 DURING JOINT MEETING OF POLEXCO, COUNCIL OF MINISTERS AND SUPREME COUNCIL OF SOCIAL AND ECONOMIC DEVELOPMENT, CEAUSESCU PROPOSED THAT ENTERPRISES MEETING AND OVERFILLING EXPORT PLANS TO HARD CURRENCY AREAS BE PERMITTED TO UTILIZE PORTION OF THESE EARNINGS FOR WORKER HOLIDAYS ABROAD.)

C. INDICATORS - BEGINNING WITH END OF PRESENT QUARTER, PHYSICAL PRODUCTION WILL REPLACE GLOBAL (VALUE) PRODUCTION AS MOST IMPORTANT PLAN FULFILLMENT INDICATOR.

D. SELF-FINANCING - EACH ENTERPRISE SHOULD MANAGE ITS OWN BUDGET AND COVER EXPENSES, I.E., NO MORE GRANTS FROM STATE BUDGET. THOSE ENTERPRISES WHOSE INCOMES DO NOT COVER EXPENSES WILL NEED TO TAKE BANK LOANS TO BE REPAYED WITH INTEREST.

E. FOREIGN TRADE - BEGINNING 1979, IT IS EXPECTED THAT ENTERPRISES COVER HARD CURRENCY AS WELL AS LEI EXPENSES; IN ALL ENTERPRISES, VALUE OF EXPORTS

MUST EXCEED IMPORTS.

F. HOUSING FOR WORKERS - IN FUTURE, EACH ENTERPRISE WILL BE RESPONSIBLE FOR PROVIDING HOUSING FOR ITS WORKERS FROM FUNDS DERIVED OUT OF INCOME. HOUSING SO CONSTRUCTED WILL BE OWNED AND MANAGED BY ENTERPRISE.

4. ROMANIAN SOURCES, AMONG THEM DIRECTOR DEIXNER FROM MINISTRY CHEMICAL INDUSTRY, HAVE TOLD US COUNCIL OF ECONOMIC AND SOCIAL ORGANIZATION (CESO) RESPONSIBLE FOR WORKING OUT MODALITIES FOR IMPLEMENTATION OF POLICY FOR ECONOMIC REFORM. FINAL VERSION OF MEASURES FOR IMPLEMENTATION OF PLAN WILL BE INTRODUCED IN A FEW PILOT PLANTS.
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5. COMMENT. IN FIRST INSTANCE, IT MUST BE SAID THERE IS LITTLE WRONG AND MUCH THAT IS GOOD WITH ECONOMICS OF CEAUSESCU'S SPEECH. AS POINTED OUT REFTEL A (PARA 14), ROMANIA HAS BASCIIALLY REACHED LIMIT OF EXTENSIVE DEVELOPMENT AS MEANS TO SUSTAIN RAPID ECONOMIC GROWTH AND FINDS ITSELF VERY MUCH IN SAME POSITION AS USSR IN 1960'S PRIOR TO INTRODUCTION OF ECONOMIC REFORMS. AN ECONOMIC SLOW-DOWN OR EVEN STAGNATION--AND DISRUPTIVE SOCIAL CONSEQUENCES--CAN BE AVOIDED ONLY THROUGH INCREASING EFFICIENCY IN PRODUCTION PROCESS. KEY ISSUE IS HOW FAR REGIME

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C O N F I D E N T I A L SECTION 2 OF 2 BUCHAREST 1483

WILLING TO GO IN TRADE-OFF BETWEEN DECENTRALIZA-
TION TO ACHIEVE EFFICIENCY AND DESIRE, PERHAPS
E
VEN NEED, FOR CENTRALIZED PARTY CONTROL TO MAINTAIN
DISCIPLINE.

6. AT FIRST GLANCE, CEAUSESCU'S SPEECH WOULD INDI-
CATE CRUCIAL, EVEN RADICAL, DECISION HAS IN FACT
BEEN MADE TO SACRIFICE LARGE MEASURE OF CONTROL
IN ORDER TO ACHIEVE EFFICIENCY. HOWEVER, SUBSEQUENT
RESEARCH INTO PUBLISHED ROMANIAN ECONOMIC THEORY
AND PST PARTY PRONOUNCEMENTS SHOW CONCEPTS
ESPOUSED BY CEAUSESCU NOW ARE NOT NEW IN ROMANIA.
THEY HAVE BEEN ESPOUSED FREQUENTLY IN PAST, BUT
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NEVER IMPLEMENTED. THUS, POLICY OF COLLECTIVE
MANAGEMENT MENTIONED AS EARLY AS JULY, 1965, AT
NINTH PARTY CONGRESS. SELF-FINANCING WAS MENTIONED
IN CENTRAL COMMITTEE (CC) DIRECTIVE IN OCTOBER,
1967. CEAUSESCU ALSO ANNOUNCED NEED TO SUPPLANT
PLAN FULFILLMENT INDICATOR OF GLOBAL PRODUCTION WITH
PHYSICAL PRODUCTION IN SPEECH TO CC PLENUM IN
DECEMBER, 1969. FURTHER, TWO ROMANIAN TEXTS PUB-
LISHED IN 1973 AND 1977 BY GOR CENTRAL INSTITUTE
FOR ECONOMIC RESEARCH DESCRIBE ROMANIAN ENTERPRISES
AS EVOLVING ON BASIS OF COLLECTIVE LEADERSHIP, SELF-
MANAGEMENT AND SELF-FINANCING, ALTHOUGH WITH
IMPORTANT QUALIFIER THAT THESE PRINCIPLES CANNOT
BE APPLIED IN "ABOLUTE" SENSE. FURTHERMORE, THIS
"NEW" POLICY, LIKE PREVIOUS EFFORTS TO GOAD THE
ECONOMY TO INCREASE EFFICIENCY, HAS COME FROM THE
TOP, APPARENTLY WITHOUT THOROUGH DISCUSSION WITHIN
THE GOVERNMENT. THE STAFF WORK TO FLESH OUT THE
POLICY REMAINS TO BE DONE.

7. NOTWITHSTANDING ABOVE PARAGRAPH, IT SEEMS CLEAR

WE CAN EXPECT SOME CHANGES. MINISTERIAL CHANGES OF MARCH 8 ARE PERHAPS PRELUDE TO AND NECESSARY CONDITION FOR EXPEDITING STAFF WORK AND SUBSEQUENT IMPLEMENTATION. IT IS TELLING THAT OFFICIAL PRESS REPORTS, INCLUDING REGIONAL NEWSPAPERS AND ECONOMIC JOURNALS, HAVE ONLY LAUDED CHANGEOVER FROM GLOBAL TO PHYSICAL PRODUCTION, TOGETHER WITH INTENTION TO LINK WAGES WITH NET PRODUCTION, WITHOUT MAKING REFERENCE TO SELF-FINANCING AND SELF-MANAGEMENT. CEAUSESCU'S COMMENT DURING SPEECH THAT SOME MANAGERS ARE AGAINST ECONOMIC REFORM AND THAT THEIR THOUGHT IS "ANTI-ECONOMIC" AND "ANTI-SOCIALIST" WOULD INDICATE THAT

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SOME SORT OF POLICY DEBATE HAS BEEN OR IS CURRENTLY UNDERWAY.

8. OUR YUGOSLAV AND SOVIET COUNTERPARTS HAVE TOLD US THAT THEY BELIEVE DECISION "IN PRINCIPLE" TO FOLLOW POLICY OUTLINED BY CEAUSESCU FEB. 16 HAS BEEN MADE, BUT THAT ROAD TO SELF-FINANCING AND SELF-MANAGEMENT WILL BE VERY LONG AND GRADUAL. POLISH ECONOMIC COUNSELOR, HOWEVER, WAS OUTRIGHTLY SKEPTICAL AND REMARKED THAT IN EVERY INSTANCE HE HAS STUDIED, GOR TENDENCY HAS BEEN TO TIGHTEN CONTROL, NOT EASE IT. POLE'S COMMENT IS GIVEN ADDED WEIGHT BY RECENT DIRECTIVE DESIGNATING PARTY SECRETARY AT EACH ENTERPRISE AS PRESIDENT OF WORKING PEOPLE'S COUNCILBC POLE ALSO ADDED THAT, WITHOUT DOUBT, CEAUSESCU'S PROPOSAL TO BASE WAGES ON NET PRODUCTION WILL BE ADOPTED WITH IMMEDIATE RESULT THAT WAGES DROP. IN MEETING WITH DIRECTOR EUR/EE ANDREWS, ION PACURARU, DIRECTOR IN MINISTRY OF LABOR, SAID NEW WAGE POLICY BASED ON NET PRODUCTION COULD RESULT IN REDUCTIONS WHICH WOULD NOT BE RECOVERED UNTIL 1980.

9. IN ANY CASE, IT SEEMS CERTAIN THAT THERE IS LITTLE POSSIBILITY OF WHOLE-SCALE TRANSFORMATION OF ENTERPRISES TO SELF-MANAGEMENT AND SELF-FINANCING, AT LEAST AS THESE PRINCIPLES KNOWN IN THE WEST. FIRST, IT SHOULD BE RECKONED THAT ONE OF CEAUSESCU'S, AND INDEED SOCIALISM'S, MOST CHERISHED DOCTRINES IS MULTILATERAL DEVELOPMENT IN ORDER TO ACHIEVE IMPORT SUBSTITUTION FOR HEAVY BRANCHES OF INDUSTRY. SO, IT HIGHLY UNLIKELY THAT STEEL OR HEAVY MACHINERY PLANT, FOR EXAMPLE, WILL BE PENALIZED OR SHUT DOWN, EVEN IF IT IS AN UNECONOMICAL PRODUCER. SECOND, SINCE NO MENTION OF PRICING POLICY WAS MADE ON FEB. 16, ONE IS LEFT TO WONDER HOW THOSE ENTER-

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PRISES WHOSE OUTPUT HAS BEEN PRICED AT ARTIFICIALLY LOW LEVELS, IN SOME CASES BELOW PRODUCTION COSTS, WILL BE ABLE TO RECOVER COSTS. IF EACH ENTERPRISE WERE GIVEN RIGHT TO SET OWN PRICES, IMMEDIATE SHOCK TO ECONOMY WOULD BE CHAOTIC. IT MUST ALSO BE RECALLED THAT IN JULY, 1977, CEAUSESCU TOLD FIRST CONGRESS OF WORKING PEOPLE'S COUNCILS THAT ENTERPRISES COULD NEVER BE ALLOWED TO SET OWN PRICES (SEE REFTEL B).

10. TO SUMMARIZE, IT CLEAR THAT SOME SORT OF ECONOMIC REFORM NECESSARY TO SWITCH ROMANIAN ECONOMY FROM EXTENSIVE DEVELOPMENT PATH TO INTENSIVE ONE. FOR TIME BEING, WE CAN EXPECT CEAUSESCU TO INSTITUTE LIMITED REFORM THAT WILL TRY TO LINK AS MANY MICRO-ECONOMIC OPERATING VARIABLES AT ENTERPRISE LEVEL AS POSSIBLE TO WORKER SALARIES TO ENCOURAGE PRODUCTION EFFICIENCY, WHILE AT SAME TIME NOT RELINQUISHING AND PERHAPS EVEN STRENGTHENING PARTY CONTROL OF MAJOR DECISION VARIABLES.

11. EFFECTS OF MINISTERIAL CHANGES OF MARCH 8 WILL BE ANALYZED IN SUBSEQUENT CABLE. HOWEVER, IT IS EVIDENT THAT CHANGES IN FOREIGN TRADE, FINANCE AND CESO (WHICH NOW HAS A NEW PRESIDENT AND VICE-PRESIDENT) WILL HAVE MAJOR IMPACT ON CONTENT AND TEMPO OF ECONOMIC REFORMS. END COMMENT. AGGREY

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